Weekly Economic Commentary – June 23, 2013

Markets

Global equity markets took another dive after the Fed reiterated in a more assertive tone, the intention to phase out QE3 in 2014. Treasuries prices had their worst weekly slide since 2009 and losses spread to all emerging markets bonds. Asian stock markets hit a 9.5-month low on Friday while the volatility index (VIX) increased by almost 10.2% last week. Regional markets were mostly down, with profit-taking evident in the UAE. The **dollar** strengthened across the board while emerging market currencies tumbled, especially the Indian **rupee** now at record low against the dollar. **Oil** prices in New York experienced the largest drop in 7 months and **gold** also took another dive.

Global Developments

Americas:

- The US Fed **FOMC** did not take any concrete measures, but stressed that that downside risks to the outlook and labour market have "diminished" since the fall, albeit fiscal policy is "restraining" economic growth. Bernanke then disclosed a time line for QE3, as the monthly USD 85bn purchases of fixed income securities could be reduced in H2 and then end in mid 2014.
- **US inflation** rose 0.1% mom in May. Gasoline prices and falling food prices capped the CPI. Core inflation was a mere 0.2% mom. Essentially inflation not even a remote concern.
- US **housing starts** expanded to 914k annualized units in May, a less than expected 6.8% increase from April's figure. The gain was driven by multifamily starts, while

single-family starts stagnated. Permits slipped 3.1% mom and completions declined by 0.9% mom.

- **Sales of existing homes** increased in May to 5.18mn annualized units, an increase of 4.2% from April confirming a solid upward trend. Sales have reached their fastest pace since fall 2009. Inventories increased 3% mom but remain tight: The median home price is up 15% yoy.
- The **Conference Board leading indicators** index rose 0.1% mom in May, lower than expected, after 0.8% in Apr. The indicator has risen in seven of the past nine months, but ISM is a major drag
- **Initial unemployment claims** rose 18k to 354k, offsetting the seasonal prior week's decline. The four-week moving average rose 2,500 to 348,250. Continuing claims dropped by 40k to 2.95 million.

Europe:

- EU Finance Ministers failed to agree on a framework to address bank crises, as Germany insisted on rules designed to bail-in bondholders and large savers which France rejects.
- The IMF threatened to suspend its disbursement to **Greece** by end July unless eurozone leaders provide EUR 3-4bn to cover a shortfall in the EUR 172bn rescue programme.
- **ZEW investor confidence index** in Germany rose to 38.5 in June from 36.4 in May, but the current situation component was almost flat at 8.6 from 8.9 in May.
- The **Bank of England** announced that Lloyds and RBS need to boost capital by GBP 10.2bn. Osborne committed HM government 'do what it can' to return both banks to the private sector.
- **UK inflation** rose to 0.2% mom, i.e. 2.7% yoy in May from 2.4% in Apr. The inflation rate will decline only slowly towards 2% next year.
- **UK retail sales** beat expectations in May soaring 2.1%

mom (1.9% yoy) a 1.1% mom decline in Apr (0.8% yoy).

- In a rare piece of good news, **Spanish industrial orders** jumped by 5.2% yoy in Apr across all subgroups.
- **Cyprus**' President Anastasiades wrote to the EU asking for a revision of the bailout terms that he claims are hitting the economy. Unlikely to have much effect beyond irritating his peers.
- **Russia**'s **industrial production** dropped 1.4% yoy the second consecutive monthly on the back of worsened business sentiment, a strong base effect, and longer public holidays.

Asia and Pacific:

- Fitch in an unusually critical report on **Chinese banking** bashed the links between the regulated and unregulated credit sectors grown out of of wealth management products and lending to shadow banks. The systemic threat to Chinese banks are being highlighted with increasing frequency.
- Short-term money market rates in **China** snapped to almost 30% (versus 3% a month ago) before the central bank intervened to inject liquidity. The squeeze was on par with that experienced before the Lehman's demise and revamped unpleasant memories among market participants.
- **Japanese exports** reached in May JPY 5.768tn (USD 60.5bn), a 10.1% yoy gain. Imports also climbed 10% exceeding the value of exports for the 11 months in a row. As a result the trade deficit, at JPY 993.9bn, was up 9.5% yoy. The rise in volume was larger than value hence the uptrend is being driven by the yen's depreciation rather than strong demand.

Bottom line: Another week of sharply falling asset prices after the Fed restated the obvious (i.e. that monetary emergency measure cannot last forever) confirms that asset valuations are held up by thin air, devoid of any fundamental logics. While the real economy remains fraught with uncertainties and expectations of a robust turnaround are sinking in a replay of last year script, prices are falling in all asset classes. Emerging markets yields have tumbled. To underline the lack of any strategy or even ideas, the G8 meeting last week did not even try to address economic issues, confining the agenda to tax havens and other similarly irrelevant topics. Cracks are appearing on the Great Wall. Although in China credit growth has climbed to about 23% yoy nominal GDP growth has slipped below 10%, pointing to a worrying decline in investment returns.

Regional Developments

- **Egypt's current account deficit** declined to USD 3.9bn in the 9 months to Mar compared to USD 7.1bn in the same period a year ago, according to the central bank. Net FDI inflows increased to USD 1.4bn for the same period vis-a-vis USD 1.2bn a year before.
- The Central Bank of **Jordan** announced that **remittances** grew 3.1% yoy to USD 1.44bn in the first five months of 2013, with May alone recording a high USD 306.3mn. **Tourism revenues** meanwhile fell by 3.5% to USD 1.34bn in Jan-May 2013, hit by with decline in medical tourism.
- **Kuwait** will hold parliamentary **elections** on July 25 – after the Cabinet approved a decree setting the date and followed a decision by judiciary to scrap the 50-seat parliament elected on December 1.
- **Public debt in Lebanon** stood at USD 59.1bn in the period up to April, growing by almost USD 5bn – with almost 60% in foreign currency – during the term of the previous PM, as per Finance Ministry statistics quoted by the secretary-general of the Association of Banks.
- **Oman**'s **government revenues** grew 2.5% yoy to OMR 4.72bn at the end of April 2013, largely due to a 10.1% gain in net oil revenues and a pick up in corporate taxes (+7%) and capital revenues (+46.3%). Meanwhile, government's general expenditure rose 17.7% to OMR 3.68bn.

- The Central bank of **Oman**, in its annual report, underscored the need and priority for fiscal-policy reforms aimed at diversifying, broadening, and rationalising the sources of government revenues – in line with the IMF views. The CBO also stated that during the plan period 2011- 2015, non-oil sector is expected to grow by an annual rate of 10% in nominal terms and 6% at constant prices.
- Bilateral trade transactions between **Iran and Oman** reached USD 250mn in the Iranian calendar year which ended March 20, 2013.
- Foreign **trade surplus in Qatar** was up by 2.2% yoy to QAR 35.2bn in Apr, according to data released by the Qatar Statistics Authority. The value of exports and imports increased by 2.3% and 2.8% respectively, with "Cars & other passenger vehicles" and "Aircraft spare parts" the major imports.
- **Saudi inflation** fell slightly to 3.8% in May (Apr: 4.0%) due to a fall in core index and in spite of food prices edging up to 6.4% (Apr: 6.2%) alongside a rise in housing prices to 3.6% (3.0%).
- **IPO amount in Saudi Arabia** fell by about 53% to SAR 1.2bn till end-June as a result of the lower capitalisation of new listing companies.
- **Saudis** are likely to spend SAR 19.5bn abroad this summer from their 6mn trips compared to a total spending of SAR18bn from 5.4mn trips a year ago. About 4.8mn trips are expected into Saudi Arabia (4.3mn last year) with local tourists increasing to 5.3mn from 5mn a year ago.
- **Intra-MENA trade** could potentially double by the end of the decade to USD 300bn, as per a statement by the Deputy Chairman and CEO, HSBC MENA region. The bank also expects that the GCC will earn more from oil over 2011-14 than it did in the previous 15 years combined.
- **MENA** markets witnessed a record **fund inflow** of USD 655mn in May, according to a report by Deutsche Bank. Breakdown shows that Saudi Arabia topped the inflows

list with USD 308mn, while Qatar received USD 131mn, Dubai was at USD 129mn, Kuwait USD 47mn and Abu Dhabi USD 40mn. Net inflows this year has reached USD 2bn compared to a net outflow of USD 192mn in the same period last year.

- G8 promise of **aid for Syrian refugees** from US & Japan: Of the USD 300mn announced as aid for Syrian refugees by the US government at the G8 Summit, USD 45mn will be provided to Jordan. In addition, Japan stated that it would provide a budget support soft loan of almost USD 120mn to Jordan, with about USD 10mn more in emergency aid for internally displaced Syrians and Syrian refugees in other nations.

UAE Focus

- **Abu Dhabi GDP** grew by 7.7% yoy to AED 911.6bn in 2012, with oil accounting for 56.5% of total. The non-oil sector surging by 9.6% and within this real estate and education were the best performing sectors, growing at 15% each.
- **Foreign investment** into UAE grew 25% yoy to around USD 9.6bn, according to the Arab Investment & Export Credit Guarantee Corporation. Overall, FDI in Arab countries increased by 9.8% to USD 47.1bn, with Saudi Arabia and UAE attracting the most – 25.8% and 20.4% of the total respectively.
- After the MSCI reclassification and recent merger of the state aluminium producers into Emal, there are more talks surrounding the imminent **merging of the two bourses** DFM & ADX. A Reuters source revealed that “the entire valuation, structuring of the deal is done” and the decision was with the “highest authorities”.